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**United Nations Relief and Works Agency
for Palestine Refugees in the Near East**

Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

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Summary

The present report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) describes the activities of the Group during 2008 and provides a detailed outline of the current financial situation of UNRWA. The Working Group unanimously adopted the report at its meeting on 1 October 2008. As in previous reports of the Group, the present report closes with a number of concluding remarks addressed to all Member States.



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I. Introduction: origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly under resolution 2656 (XXV) to study all aspects of the financing of the Agency. In that resolution, the Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At the twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group (most recently, A/62/361)¹ and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year (most recently, resolution 62/104).

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland, and the United States of America. The Chairman of the Working Group is Baki Ilkin of Turkey.

II. Activities of the Working Group during 2008

4. During the year, the Working Group held two meetings, the first on 12 September, in which the Director of the UNRWA Representative Office, Andrew Whitley, briefed the Group on the Agency's financial situation and developments facing the Agency. A second meeting was held on 19 September. On 1 October, the present report was agreed and adopted.

III. Financial situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

5. Against its \$994.2 million budget for the biennium 2006-2007, in 2007 the Agency received \$434.7 million in income for its cash and in-kind planned expenditure, leaving a large funding gap of \$71.0 million for the year. UNRWA's cash and in-kind regular budget for the current biennium 2008-2009 amounts to \$1,093.2 million, of which the cash component was \$541.8 million for 2008 and \$545.6 million for 2009. In mid-2008, UNRWA revised the cash component of its regular budget for that year to \$546.4 million to cover unbudgeted additional costs, including salary increases, resulting, inter alia, from the global food and energy crises. The anticipated funding gap for 2008 as at 31 August was \$78.7 million. UNRWA's regular budget income for 2008 was expected to be \$467.7 million (\$440.5 million in financial contributions, \$19.2 million in transfers from the United Nations assessed contributions budget, to cover the costs related to 119 international posts, and \$8 million in forecast interest income and exchange rate gains).

6. The Working Group noted the \$111.0 million deficit against UNRWA's \$135.9 million project budget for 2007. The deficit against the 2008 project budget

¹ For the report of the Fourth Committee on its consideration of the most recent report of the Working Group, see A/62/404.

of \$56.8 million was expected to reach \$38.1 million. The capital requirements of UNRWA's programmes, as well as the costs related to environmental health improvements and shelter rehabilitation, are contained chiefly in the project budget. These requirements include construction and expansion of schools, health centres, water and sanitation facilities, and camp improvement activities. The Working Group was particularly concerned that, in the light of the constraints on the Agency's ability to deliver quality services imposed by inadequate physical facilities, large, recurrent project budget deficits could adversely affect UNRWA's regular services for the refugees.

7. The Working Group was informed by UNRWA at its 12 September meeting that the \$1,093 million budget for the biennium 2008-2009 budget — a figure that excluded projects — had been endorsed by the Advisory Committee on Administrative and Budgetary Questions at the sixty-second session in October 2007. The budget described the strengthening of results-based management and programme delivery that UNRWA is implementing in line with the Agency's three-year organizational development reform programme, now at its mid-stage. The Report of the Advisory Committee was subsequently adopted by the Fifth Committee.

8. While benefiting from increased contributions from a number of major donors, and from favourable exchange rate trends, overall pledges made to UNRWA's regular budget in 2008 were anticipated to fall significantly short of adjusted budgeted expenditure. In part, that was due to unanticipated increases in the cost of fuel and food commodities, as well as staff salary increases granted because of rapidly rising local costs of living. The Agency appealed to donors to fully fund the biennium budget as a whole, on the grounds that UNRWA represents the principal source of general education, primary health, social, relief, and microfinance services for the refugee population. UNRWA's cost-effective services constituted a vital investment in the human development and well-being of the refugees by the international community. Declining educational performance among refugees in some UNRWA schools in 2007, notably in the Gaza Strip, provided alarming evidence of the results of, *inter alia*, chronic underfunding of the Agency's core services. The continued commitment of the international community to the refugees remained essential, in the absence of a just and durable solution to their problem and in the light of the continuing conflicts in the region, which have had devastating economic and social consequences for them.

9. As of 30 June 2008, the Agency was owed approximately \$24.3 million in VAT reimbursements from the Palestinian Authority, almost double the \$12.8 million figure recorded at the end of 2006. While regrettable in the light of UNRWA's financial constraints, the inability of the Palestinian Authority to make good on its past commitments to eliminate this long-standing debt was understandable, considering the Authority's own straitened financial circumstances.

10. UNRWA was also concerned about port and related transit charges, exacerbated by security procedures imposed on humanitarian goods it imported through Israel. The Israeli authorities continued to impose transit charges on shipments entering the Gaza Strip, forcing UNRWA to pay \$132,524 in 2007 and \$91,853 between 1 January and 30 June 2008. In the Agency's view, the charge is a direct tax from which it ought to be exempted under the 1946 Convention on the Privileges and Immunities of the United Nations. UNRWA is normally required to

route its humanitarian shipments into the Gaza Strip through the main Karni crossing, except for construction materials, which enter through the secondary Sofa crossing. However, from 12 June 2007, the Karni crossing was closed for all containers. Thereafter all UNRWA shipments were required to enter through Sofa and, from November 2007, Kerem Shalom, neither of which are able to handle containers. Largely due to closure of Karni and the requirement from June 2007 to palletize container shipments for entry through the Sofa and Kerem Shalom crossings, the Agency's excess operating charges in 2007 for storage, demurrage, transportation and palletization were some \$1.9 million. In the first six months of 2008 total excess charges for storage, demurrage, transportation and palletization amounted to some \$0.98 million. Separately, from 14 June 2007, importation into the Gaza Strip of construction and other materials was prohibited. As a consequence, UNRWA was compelled to suspend or halt the tendering or completion of several construction and infrastructure projects. By the end of 2007, 22 construction and 17 infrastructure projects worth \$84 million were still suspended. The Agency considers that, for substantial periods, the throughput of goods was not consistent with Israel's obligations under the Comay-Michelmore Agreement of 1967 and Israel's obligations under international humanitarian law as mentioned in paragraph 10 of the report at the sixty-second session.² In this regard, the Working Group called on all parties concerned to facilitate the mission of UNRWA to provide humanitarian assistance to the Palestine refugee population.

11. Given the importance of ensuring that scarce donor resources are used as effectively and efficiently as possible, the Working Group acknowledged with appreciation the leadership of Commissioner-General Karen Koning AbuZayd and Deputy Commissioner-General Filippo Grandi, who oversaw the Agency's ongoing organizational development programme. The Working Group acknowledged with satisfaction the considerable progress made since 2006 in implementing the plan, which seeks to strengthen UNRWA's management and human resource capacity, enhance its effectiveness through improved planning, needs-assessments and programme evaluations, and further implementation of a results-based management and programme culture. As of 31 August 2008, pledges to the organizational development programme had reached \$21.6 million, of which UNRWA had received \$21.5 million, out of an anticipated total requirement of \$26.2 million. To ensure that reforms in progress are sustained, the Working Group noted that UNRWA is seeking a further \$17 million from bilateral donors to implement an enterprise resource planning system. This system can significantly improve the quality of information on which decisions are made in the Agency, increase the speed of internal processes, empower managers who are closer to the delivery of services and strengthen the connection between responsibility, delegation and accountability. Thus, it would provide UNRWA with a tool with which to cement a large number of management reforms currently under way. Noting the importance of the organizational development programme for the Agency's managerial transformation, the Working Group urged UNRWA to expedite its efforts to identify clear impact indicators and requested Member States to provide the balance of the financial support required as speedily as possible. It also urged UNRWA to continue to cooperate closely with the Secretariat and those other United Nations agencies which have been through similar reform efforts in order to benefit from their experiences and obtain possible synergies, with a cost-saving potential.

² A/62/361.

12. The Working Group noted with satisfaction that in the course of 2008 UNRWA made significant progress towards achieving its organizational development and other reform objectives. In areas such as programme cycle management, reforms in social safety net provision, human resource management and organizational processes, a solid foundation was laid for more efficient and effective delivery of services to Palestine refugees. Noting that these far-reaching reforms would have budgetary implications, the Working Group expressed the hope that the Agency would accelerate its efforts in this regard. The Working Group recalled that in December 2007 the General Assembly approved the establishment of six new international posts for UNRWA and asked the Secretariat to provide it with justifications for a further six posts in the biennium 2010-2011. The Working Group noted the Agency's long-standing concerns about the effects of understaffing on its ability to meet the demands of all stakeholders-donors, host authorities and the refugees themselves. Furthermore, compared with other comparable United Nations organizations, UNRWA senior management structures are undergraded, creating difficulties for the Agency in recruiting and retaining sufficiently experienced senior international staff. In this regard, the Working Group highlighted the importance of the overall institutional strengthening of the Agency in the coming period.

13. The Working Group was informed at its 12 September meeting that UNRWA's 2008 Emergency Appeal for \$262.4 million, to cover needs in the occupied Palestinian territory, had received pledged contributions of \$160.5 million as at 31 August, equivalent to 61 per cent of the total amount requested. The Appeal, which provides, inter alia, for badly needed food aid, emergency job creation and cash assistance, seeks to alleviate the dire humanitarian conditions in the territory. Following the seizure of power in the Gaza Strip by Hamas in June 2007, a tight economic blockade was imposed on the territory. These actions have created massive levels of unemployment and dependency on external assistance, primarily delivered through the United Nations. Noting with deep concern that 70 per cent of registered refugees in the Gaza Strip are currently dependent on UNRWA food aid for their essential sustenance, and that the degree of their vulnerability and dependence remains acute, the Working Group called for the Emergency Appeal to be fully funded by donors. Noting that a third of the total pledged to date derived from one donor state, the Working Group called on those traditional donors as well as States in the region that have not yet announced pledges to do so at an early date.

14. In May 2007, conflict erupted in and around the Nahr el-Bared refugee camp in northern Lebanon between the Lebanese Army and a militant Islamist group identifying itself as Fatah al-Islam. As of 2 September, when the fighting ceased, 498 persons had been killed, including some 169 Lebanese soldiers and 1 UNRWA staff member. The entire camp, which previously housed some 31,000 Palestine refugees and a small number of other persons, was completely destroyed, including housing, essential infrastructure and UNRWA facilities. The task of rebuilding Nahr el-Bared and caring for those displaced in the interim will be one of the largest challenges ever undertaken by UNRWA. A year after the conclusion of the fighting, one third of those displaced have been able to return to their original homes in the area adjacent to the camp, or else have been rehoused nearby. The remainder live in rented accommodation or else remain with host families in the nearby Beddawi camp. Donors have responded generously to the two appeals launched so far by UNRWA to support the displaced population. A request for \$54.8 million for 12 months to the end of August 2008 was fully funded. Encouraged by this

precedent, the Working Group called on all donors to likewise support fully a further appeal for \$42.7 million, covering 16 months from September 2008 to the end of 2009. Working closely with the Government of Lebanon, the World Bank, and other United Nations agencies, a donor conference was held in Vienna on 23 June 2008, at which a joint appeal was launched for \$445 million over a three-year period to 2011, to support reconstruction of the camp and repairs in the surrounding area, including neighbouring Lebanese villages. The UNRWA component comprised \$282.1 million. As at 31 August, firm pledges received had totalled \$42.6 million, equivalent to 15 per cent of the amount required. While this sum is sufficient to enable preliminary work to commence on the site, the Working Group expressed serious concern that inadequate donor funding might result in a lack of momentum for such a major undertaking, bearing in mind its far-reaching political, security and humanitarian dimensions in Lebanon. The Group thus called upon all donors, particularly countries in the region, to lend their full support to the project. In addition, the Working Group encouraged UNRWA to press ahead with its comprehensive camp improvement initiative, which seeks to upgrade poor living conditions in the 12 Palestine refugee camps in Lebanon, a project fully supported by the Government.

IV. Concluding remarks

15. The Working Group notes with concern the large funding gap anticipated for UNRWA's regular budget in 2008 and reiterates that it is the responsibility of the international community to ensure that UNRWA services are maintained at an acceptable level in quantitative and qualitative terms and to ensure that funding keeps pace with the changing needs of the refugee population.

16. The Working Group commends the Commissioner-General and all UNRWA staff for their tireless efforts over the past year to maintain the services of the Agency under very difficult operational circumstances. Among the challenges faced were the dire humanitarian consequences of the continuing conflict in the West Bank and Gaza Strip, and the consequences of the destruction of Nahr el-Bared refugee camp in Lebanon. It encourages the Commissioner-General to continue her fund-raising efforts and her commitment to keeping major donors and host authorities informed and involved, opening new avenues of support and funding and seeking a broader base of support among non-traditional donors. The Working Group is gratified by the support that a growing number of non-traditional donors have been giving to important Agency infrastructure projects and to Emergency Appeals, and encourages UNRWA to continue its efforts to widen the donor support base. It acknowledged with appreciation the significant project aid provided to the Agency over the past year by donors, including certain important Arab donors.

17. The Working Group calls for the early and complete fulfilment of outstanding pledges and other commitments to UNRWA. It also takes note of the importance for the Agency's planning purposes of early payment of pledges, coupled, where possible, with multi-year commitments of funds. The Working Group notes with regret that the budget for the biennium 2006-2007 was seriously underfunded. In 2007, contributions reached only \$434.7 million, 86 per cent of a budget totalling \$505.7 million. This year, the Agency projects its cash income at \$467.7 million, 14 per cent below the required amount.

18. The Working Group continues to believe that UNRWA plays a vital role in preserving the stability and security of the region. To assist in meeting this strategic goal, adequate funding of the Agency's programmes, in accordance with the changing needs of the refugee community and in line with the comparable level of services provided by host authorities to their own citizens is essential. In this regard, the Working Group welcomes UNRWA's strengthened focus on strategic planning, monitoring and evaluation of programmes and its commitment to results-based management, ensuring the most effective use of donor funds and a stronger emphasis on well-defined outcomes.

19. In view of the deep humanitarian crisis in the occupied Palestinian territory, the Group recognizes the essential humanitarian role played by UNRWA's emergency operations in alleviating the hardship of the refugees and preventing an even greater decline in their living conditions. It thus urges the international community to fully fund the Agency's Emergency Appeal for 2008, to which pledges have so far reached only 61 per cent.

20. The Working Group expressed concern about the growing number of restrictions on the movement of UNRWA staff and humanitarian goods into and out of the occupied Palestinian territory, and in particular within the West Bank. The Group called on the Israeli Government to accord free and unfettered access to the Agency. It recalled that in the Gaza Strip the prolonged closure of the limited number of commercial crossings and tight restrictions imposed on a broad range of essential goods, including fuel, paper and cement, permitted to enter the territory has resulted in the suspension of badly needed infrastructure projects being undertaken by UNRWA and interfered with the delivery of vital emergency aid.

21. The humanitarian problems faced by the Palestinian refugees today must be addressed as a shared international responsibility pending a final and comprehensive settlement of the Israeli-Palestinian conflict in accordance with international law, including relevant United Nations resolutions. The services provided by UNRWA must be viewed as the minimum required to enable the refugees to lead productive lives. Any reduction in those services, in combination with the constantly increasing number of the refugees, would not only unfairly deprive them of the minimum level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Working Group expresses the hope that the international support for UNRWA embodied in the resolutions adopted each year by the General Assembly, in which the Assembly recognizes the importance of the work of the Agency, will be translated in practice into increased support to ensure the continuation of the Agency on a sound financial basis.

22. The Working Group strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 2008 and 2009, and once again:

(a) Urges those Governments that have not yet contributed to UNRWA to do so on a regular basis;

(b) Urges Governments that have so far made only relatively small contributions or else contributions that have not kept up with increased needs to raise the level of their support;

(c) Urges Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;

(d) Urges Governments that traditionally have shown special interest in the welfare of the Palestine refugees, both in the region and beyond, to begin contributing to UNRWA or to increase their contributions;

(e) Urges Governments to fully fund UNRWA's budget for the biennium 2008-2009, ensure that the real value of contributions to the Agency is maintained, and ensure that donor support of emergency-related and special programmes does not in any way decrease or divert contributions to its regular programme;

(f) Urges donor Governments, where possible, to provide multi-year funding to allow UNRWA to better plan its activities.